

PATENT WATCH

Patentee bears burden of proof when licence agreements are questioned

The licensing of patents in return for a fee or royalties has a key role in drug discovery. Now, the US Supreme Court has ruled in a case that could alter the balance of power between patentee and licensee if a patent licence agreement is disputed or uncertain.

In some situations, such as when the licensee brings out a new product, it may be unclear whether they need to pay royalty fees to the patentee for that product. In such situations, the licensee can file a so-called 'declaratory judgement' action, asking a court to say what the outcome would be if the patent holder were to sue them for infringement. The issue at the centre of the current case was which party — the patentee or the licensee — was required to prove whether or not a patent covers the licensee's products. The Supreme Court decided that it was down to the patent owner to prove that their patents cover the licensee's products.

"The Supreme Court's decision appears to offer a substantial advantage to patent

licensees," says Aaron Bowling, a patent Attorney at Banner and Witcoff, Chicago, Illinois, USA. "Now, because the patent owner bears the burden of proof, patent licensees may now force the patent owner to prove that the already licensed patent does indeed cover the licensee's products, and may do so by filing a declaratory judgement action at a time and venue of their choosing." The choice of venue where the parties will resolve a dispute is important, because courts in some locations are considered less patentee-friendly than others.

The case was between the medical device company Medtronic and a group called Mirowski Family Ventures that owns patents related to implantable heart stimulators. The companies have a licensing agreement that permits Medtronic to use certain patents in exchange for royalty payments; however, they disputed whether the licence of two patents was needed for Medtronic to make new cardiac resynchronization

devices. Mirowski accused Medtronic of infringement, so Medtronic sought a declaratory judgement action.

When the case was heard by a US appeals court, it ruled that it was up to the licensee to show that the patent did not cover its products. But the Supreme Court reversed this decision and placed the burden of proof on the patentee. This reversal, it reasoned, was strongly supported by accepted legal propositions. For example, in other litigations (namely, patent infringement cases) it is the patentee who normally has to prove that infringement has occurred. To shift the burden of proof depending on the type of action — that is, declaratory judgement or infringement — could result in a situation where neither party could prevail, and so it would be undecided whether a certain product infringes on a certain patent even after several court cases.

Given that this judgement could favour the licensee, what steps might patent owners now take?

Jim Singer, a patent attorney at Fox Rothschild Pittsburgh, Pennsylvania, USA, explains that a patent holder typically has two legal options when they believe that a licensee isn't paying all royalties that are due. These are to accuse the licensee of breach of contract or to accuse the licensee of patent infringement. (Mirowski followed the latter option.) "This case indicates that a patent holder may want to think twice before making a patent infringement accusation, as the licensee can now file a declaratory judgement and require the patentee to prove that accusation in court," he highlights.

The dispute between Medtronic and Mirowski has been sent back to the appeals court for a decision in line with the Supreme Court's ruling.

Medtronic versus Mirowski: http://www.supremecourt.gov/opinions/13pdf/12-1128_h315.pdf

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